

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF
SOUTH MADISON COMMUNITY SCHOOL CORPORATION
MADISON COUNTY, INDIANA
July 1, 2004 to June 30, 2006



FILED
03/09/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Penny G. Myers	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Robert Zimmerman Thomas E. Warmke	07-01-04 to 09-30-05 10-03-05 to 06-30-07
President of the School Board	Mark Matlock Patricia Valentine Mark Matlock	07-01-04 to 06-30-05 07-01-05 to 06-30-06 07-01-06 to 06-30-07



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE SOUTH MADISON COMMUNITY
SCHOOL CORPORATION, MADISON COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Madison Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated January 29, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Funding Progress, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Long-Term Debt is presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

February 19, 2007



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

TO: THE OFFICIALS OF THE SOUTH MADISON COMMUNITY
SCHOOL CORPORATION, MADISON COUNTY, INDIANA

We have audited the financial statements of the South Madison Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated February 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by any one other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

February 19, 2007

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 5,324,978
Restricted assets:	
Cash and investments	<u>2,130,664</u>
Total assets	<u>\$ 7,455,642</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 2,130,664
Unrestricted	<u>5,324,978</u>
Total net assets	<u>\$ 7,455,642</u>

The accompanying notes are an integral part of the financial statements.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 4,920,609
Restricted assets:	
Cash and investments	<u>645,694</u>
Total assets	<u>\$ 5,566,303</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 645,694
Unrestricted	<u>4,920,609</u>
Total net assets	<u>\$ 5,566,303</u>

The accompanying notes are an integral part of the financial statements.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 9,526,815	\$ -	\$ 160,605	\$ (9,366,210)
Support services	20,102,598	1,267,151	336,624	(18,498,823)
Community services	314,163	-	-	(314,163)
Nonprogrammed charges	1,770,474	-	-	(1,770,474)
Debt service	<u>10,242,253</u>	<u>-</u>	<u>-</u>	<u>(10,242,253)</u>
Total governmental activities	<u>\$ 41,956,303</u>	<u>\$ 1,267,151</u>	<u>\$ 497,229</u>	<u>(40,191,923)</u>
General receipts:				
Property taxes				15,440,630
Other local sources				6,525,555
State aid				13,977,102
Grants and contributions not restricted				425,822
Bonds and loans				7,000,000
Sale of property, adjustments, and refunds				1,857,736
Investment earnings				<u>62,266</u>
Total general receipts				<u>45,289,111</u>
Change in cash and investments				5,097,188
Net assets - beginning				<u>2,358,454</u>
Net assets - ending				<u>\$ 7,455,642</u>

The accompanying notes are an integral part of the financial statements.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 9,420,553	\$ -	\$ 105,646	\$ (9,314,907)
Support services	27,494,228	1,381,095	385,507	(25,727,626)
Community services	397,335	-	-	(397,335)
Nonprogrammed charges	1,840,993	-	-	(1,840,993)
Debt service	7,872,502	-	-	(7,872,502)
Total governmental activities	<u>\$ 47,025,611</u>	<u>\$ 1,381,095</u>	<u>\$ 491,153</u>	<u>(45,153,363)</u>
General receipts:				
Property taxes				12,867,918
Other local sources				6,042,770
State aid				14,734,435
Grants and contributions not restricted				337,017
Bonds and loans				9,017,146
Sale of property, adjustments, and refunds				75,619
Investment earnings				<u>189,119</u>
Total general receipts				<u>43,264,024</u>
Change in cash and investments				(1,889,339)
Net assets - beginning				<u>7,455,642</u>
Net assets - ending				<u>\$ 5,566,303</u>

The accompanying notes are an integral part of the financial statements.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Construction	Other	Totals
Receipts:								
Local sources	\$ 8,170,273	\$ 1,477,480	\$ 5,234,380	\$ 2,355,635	\$ 324,441	\$ -	\$ 2,262,958	\$ 19,825,167
Intermediate sources	299	-	-	-	-	-	1,575	1,874
State sources	14,136,943	-	-	-	-	-	388,114	14,525,057
Federal sources	-	-	-	-	-	-	375,094	375,094
Bonds and loans	5,000,000	-	2,000,000	-	-	-	-	7,000,000
Sale of property, adjustments and refunds	4,195	215	-	1,850,638	-	-	2,688	1,857,736
Intergovernmental transfers	-	300,467	-	-	-	-	8,841	309,308
Total receipts	<u>27,311,710</u>	<u>1,778,162</u>	<u>7,234,380</u>	<u>4,206,273</u>	<u>324,441</u>	<u>-</u>	<u>3,039,270</u>	<u>43,894,236</u>
Disbursements:								
Current:								
Instruction	9,054,846	-	-	-	-	-	471,969	9,526,815
Support services	9,652,563	1,026,085	90	3,847,261	445,897	-	1,748,437	16,720,333
Community services	145,852	-	-	-	-	-	168,311	314,163
Nonprogrammed charges	1,774,356	667	303,147	1,144	142	-	326	2,079,782
Debt services	4,800,000	300,000	4,729,030	-	-	-	413,223	10,242,253
Total disbursements	<u>25,427,617</u>	<u>1,326,752</u>	<u>5,032,267</u>	<u>3,848,405</u>	<u>446,039</u>	<u>-</u>	<u>2,802,266</u>	<u>38,883,346</u>
Excess (deficiency) of total receipts over (under) total disbursements	1,884,093	451,410	2,202,113	357,868	(121,598)	-	237,004	5,010,890
Cash and investments - beginning	<u>(701,236)</u>	<u>(236,164)</u>	<u>(67,677)</u>	<u>1,725,663</u>	<u>64,295</u>	<u>50,000</u>	<u>391,897</u>	<u>1,226,778</u>
Cash and investments - ending	<u>\$ 1,182,857</u>	<u>\$ 215,246</u>	<u>\$ 2,134,436</u>	<u>\$ 2,083,531</u>	<u>\$ (57,303)</u>	<u>\$ 50,000</u>	<u>\$ 628,901</u>	<u>\$ 6,237,668</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ 5,010,890
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>86,298</u>
Change in cash and investments of governmental activities	<u>\$ 5,097,188</u>

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Construction	Other	Totals
Receipts:								
Local sources	\$ 6,737,153	\$ 1,241,558	\$ 4,065,063	\$ 1,991,514	\$ 344,725	\$ 120,220	\$ 2,358,452	\$ 16,858,685
Intermediate sources	238	-	-	-	-	-	2,025	2,263
State sources	14,839,356	-	-	-	-	-	254,893	15,094,249
Federal sources	-	-	-	-	-	-	468,356	468,356
Bonds and loans	-	-	-	-	-	8,900,000	117,146	9,017,146
Sale of property, adjustments and refunds	13,870	-	-	57,954	-	-	3,795	75,619
Intergovernmental transfers	8,841	-	-	-	-	-	398,181	407,022
Total receipts	<u>21,599,458</u>	<u>1,241,558</u>	<u>4,065,063</u>	<u>2,049,468</u>	<u>344,725</u>	<u>9,020,220</u>	<u>3,602,848</u>	<u>41,923,340</u>
Disbursements:								
Current:								
Instruction	8,902,580	-	-	-	-	-	517,973	9,420,553
Support services	9,932,648	1,331,941	60	3,486,788	211,079	6,713,079	2,172,423	23,848,018
Community services	169,987	-	-	-	-	-	227,349	397,336
Nonprogrammed charges	2,021,548	37,046	106,070	52,983	8,621	-	21,747	2,248,015
Debt services	2,000,000	-	5,456,534	-	-	-	415,968	7,872,502
Total disbursements	<u>23,026,763</u>	<u>1,368,987</u>	<u>5,562,664</u>	<u>3,539,771</u>	<u>219,700</u>	<u>6,713,079</u>	<u>3,355,460</u>	<u>43,786,424</u>
Excess (deficiency) of total receipts over (under) total disbursements	(1,427,305)	(127,429)	(1,497,601)	(1,490,303)	125,025	2,307,141	247,388	(1,863,084)
Cash and investments - beginning	<u>1,182,857</u>	<u>215,246</u>	<u>2,134,436</u>	<u>2,083,531</u>	<u>(57,303)</u>	<u>50,000</u>	<u>628,901</u>	<u>6,237,668</u>
Cash and investments - ending	<u>\$ (244,448)</u>	<u>\$ 87,817</u>	<u>\$ 636,835</u>	<u>\$ 593,228</u>	<u>\$ 67,722</u>	<u>\$ 2,357,141</u>	<u>\$ 876,289</u>	<u>\$ 4,374,584</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ (1,863,084)
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>(26,255)</u>
Change in cash and investments of governmental activities	<u>\$ (1,889,339)</u>

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUND
For The Year Ended June 30, 2005

	Internal Service Fund
Receipts:	
Local sources	\$ <u>3,468,558</u>
Disbursements:	
Support services	<u>3,382,260</u>
Changes in cash and investments	86,298
Cash and investments - beginning	<u>1,131,676</u>
Cash and investments - ending	<u><u>\$ 1,217,974</u></u>

The accompanying notes are an integral part of the financial statements.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUND
For The Year Ended June 30, 2006

	Internal Service Fund
Receipts:	
Local sources	\$ <u>3,619,953</u>
Disbursements:	
Support services	<u>3,646,208</u>
Changes in cash and investments	(26,255)
Cash and investments - beginning	<u>1,217,974</u>
Cash and investments - ending	<u><u>\$ 1,191,719</u></u>

The accompanying notes are an integral part of the financial statements.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2005

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ 42,115	\$ 17,360
State sources	-	7,228
Transfers	-	8,938
	<u>42,115</u>	<u>33,526</u>
Total additions	<u>42,115</u>	<u>33,526</u>
Deductions:		
Instruction	-	63
Support services	208,201	-
Community services	-	9,058
Nonprogrammed charges	-	8,938
	<u>208,201</u>	<u>18,059</u>
Total deductions	<u>208,201</u>	<u>18,059</u>
Excess (deficiency) of total additions over (under) total deductions	(166,086)	15,467
Cash and investments - beginning	<u>1,879,994</u>	<u>196,459</u>
Cash and investments - ending	<u>\$ 1,713,908</u>	<u>\$ 211,926</u>

The accompanying notes are an integral part of the financial statements.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2006

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ 17,622	\$ 17,418
State sources	-	5,558
Bonds and loans	500,000	-
Transfers	<u>-</u>	<u>8,938</u>
Total additions	<u>517,622</u>	<u>31,914</u>
Deductions:		
Instruction	-	10,784
Support services	1,729,975	10,311
Community services	-	10,489
Nonprogrammed charges	<u>-</u>	<u>8,938</u>
Total deductions	<u>1,729,975</u>	<u>40,522</u>
Deficiency of total additions under total deductions	(1,212,353)	(8,608)
Cash and investments - beginning	<u>1,713,908</u>	<u>211,926</u>
Cash and investments - ending	<u><u>\$ 501,555</u></u>	<u><u>\$ 203,318</u></u>

The accompanying notes are an integral part of the financial statements.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,713,908	\$ 211,926	\$ 41,388
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 1,713,908	\$ 211,926	

The accompanying notes are an integral part of the financial statements.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 501,555	\$ 203,318	\$ 77,392
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 501,555	\$ 203,318	

The accompanying notes are an integral part of the financial statements.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

These financial statements present the School Corporation (primary government). There are no significant component units which require inclusion.

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Joint Venture

The School Corporation is a participant with Community School Corporation of Southern Hancock County, Community School Corporation of Eastern Hancock County, Mt. Vernon Community School Corporation, and Greenfield-Central Community School Corporation in a joint venture to operate a joint special education program which was created to provide educational programs for multiple handicapped, hard of hearing, deaf and visually impaired children. The School Corporation is billed every quarter for their portion of the joint venture expenses based on their percentage of students attending. Complete financial statements for the Hancock-South Madison Joint Services Center can be obtained from Greenfield-Central Community School Corporation, 110 West North Street, Greenfield, IN 46140.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

The construction fund is used to account for disbursements for capital outlay from receipts derived from the sale of general obligation bonds or other outside sources.

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for risk financing for risks associated with medical benefits to employees, retirees, and dependents (excluding postemployment benefits), all lines aggregate liability insurance, and is provided to other departments on a cost-reimbursement basis.

The pension trust funds account for the activities concerning the retirement/severance benefits as authorized by statute.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the school corporation or students who attend the school corporation.

Agency funds account for assets held by the School Corporation as an agent for payroll related withholdings and serve as control accounts for certain cash transactions during the time they are a liability to the school corporation; that is, from the time they are expensed to the government or withheld from the employee's wages until they are transmitted to the proper payee for the purpose withheld.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30, 2006.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 10 days per year. Unused sick leave may be accumulated to a maximum of 180 days. Accumulated sick leave exceeding 120 days may be paid to employees at rates dependent on employment status (teaching; noncertified and administrative).

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

c. Personal Leave

School Corporation employees earn personal leave at the rate of 3 days to 5 days per year. Unused personal leave is transferred to accumulated sick leave at the end of the school year.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash and Investments and the Statement of Cash Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash and Investments and the Statement of Cash Activities.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Cash and Investment Balance Deficits

At June 30, 2005 and 2006, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines as referenced in state statute.

Fund	06-30-05	06-30-06
General Fund	\$ -	\$ 244,448
Education Technology Advance	-	89,078
Title IV, Part A 2003/2004	3,477	-
Title II - Eisenhower Grants	1,267	-
Title II	-	794
Retirement/Severance Bond Debt	3,770	-
Transportation Bus Replacement	57,303	-

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13-9.

Investment Policies

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the School Corporation and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the School Corporation may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The School Corporation does not have a formal investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The School Corporation must follow state statute and limit the stated final maturities of the investments to no more than two years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School Corporation does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The School Corporation does not have a formal policy in regards to foreign currency risk.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

Transfer From	Transfer To	2004	2005
General Fund	Other governmental	\$ 3,881	\$ 180,555
Transportation Operating	Other governmental	667	37,046
Debt Service Fund	Transportation Operating	300,467	-
Debt Service Fund	Other governmental	2,681	106,070
Capital Projects Fund	Other governmental	1,144	52,983
Transportaiton Bus Replacement	Other governmental	142	8,621
Other governmental	General Fund	-	8,841
Other governmental	Other governmental	326	12,906
Totals		<u>\$ 309,308</u>	<u>\$ 407,022</u>

The School Corporation typically uses transfers for cash flow purposes according to various statutes.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk. Risk financing is not utilized for the other risks of loss.

Medical Benefits to Employees, Retirees, and Dependents (Excluding Postemployment Benefits)

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents (excluding postemployment benefits). The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$150,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Holding Corporations

The School Corporation has entered into a capital lease with the South Madison Community School Building Corporation (lessor) and the Second South Madison Community School Building Corporation (lessor). The lessors were organized as not-for-profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. Lease payments during the year totaled \$1,490,000 and \$725,000, respectively.

C. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	<u>PERF</u>
Annual required contribution	\$ 94,357
Interest on net pension obligation	(18,310)
Adjustment to annual required contribution	<u>20,866</u>
Annual pension cost	96,913
Contributions made	<u>131,722</u>
Decrease in net pension obligation	(34,809)
Net pension obligation, beginning of year	<u>(252,557)</u>
Net pension obligation, end of year	<u><u>\$ (287,366)</u></u>
Contribution rates:	
School Corporation	7.25%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-03	\$ 114,858	115%	\$ (207,987)
	06-30-04	88,441	150%	(252,557)
	06-30-05	96,913	149%	(287,366)

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$346,943, \$316,208, and \$272,125, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,883,740	\$ 1,789,165	\$ 94,575	105%	\$ 1,933,726	5%
07-01-04	1,941,569	1,905,503	36,066	102%	1,945,290	2%
07-01-05	2,046,093	2,184,323	(138,230)	94%	2,293,151	(6%)

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Lease/Rental 2001 MRES	\$ 12,280,000	\$ 870,000
Lease/Rental 2005 East/Pendleton/PHMS/MS land	26,460,000	635,000
Common School Loans		
A0417 - PHHS	11,513,935	513,900
A0316 - Pendleton Elementary (formerly South)	375,000	75,000
A0887 - Technology Advance	66,520	66,520
A1127 - Technology Advance	105,431	23,429
Technology Advance	-	9,307
Veteran's Memorial Loan		
Veteran's Memorial-Pendleton Elementary	18,700	3,400
Notes and loans payable		
School Bus Loan (3 buses)	23,223	23,223
School Bus Loan (Special Ed Bus)	7,905	7,905
School Bus Loan (1 bus)	14,122	14,122
School Bus Loan (1 bus)	49,429	15,888
School Bus Loan (1 bus)	57,937	18,623
School Bus Loan (1 bus)	41,907	13,470
School Bus Loan (1 bus)	-	12,227
School Bus Loan (3 buses)	-	63,235
Lease of Office Furniture	93,709	30,035
Bonds payable:		
General obligation bonds:		
G.O. Bond School Pension Bonds 2002	1,635,000	325,000
G.O. Bond School Pension Bonds 2006	500,000	45,000
G.O. Bond 2006 - Purchase of land (MS)	-	55,000
G.O. Bond 2006 - Bus Lot/Fueling Station	-	25,000
Total governmental activities long-term debt	<u>\$ 53,242,818</u>	<u>\$ 2,845,284</u>

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The cash balances of several funds were overdrawn at June 30, 2005 and June 30, 2006, as follows:

	<u>June 30, 2005</u>	<u>June 30, 2006</u>
General Fund	\$ -	\$ 244,448.13
Education Technology Advance	-	89,078.04
Title IV, Part A 2003-2004	3,477.47	-
Title II, Eisenhower Grants	1,266.75	-
Title II	-	793.54
Retirement / Severance Bond Debt	3,770.04	-
Transportation Bus Replacement	57,303.30	-

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CONDITION OF RECORDS (Applies to Pendleton Heights High School)

Financial records for the Pendleton Heights High School Extra-Curricular Account presented for audit were overstated by \$12,577.71 and not reflective of the activity in the Extra-Curricular Account. The account balances on June 30, 2006, presented for audit has a posting error of \$9,000.00 which was the result of an investment maturing that was posted incorrectly. Also, as of June 30, 2006, insufficient fund checks (NSF) totaling \$3,577.71, have been allowed to accumulate without being resolved. The overstatements of the account balances have been identified and listed as adjustments on the bank reconciliation performed.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

OLD OUTSTANDING CHECKS (Applies to Pendleton Heights High School)

Review of the bank reconcilements for Pendleton Heights High School as of June 30, 2006, revealed 27 checks outstanding in excess of 2 years.

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states in part: "Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the: (1) board of finance of the political subdivision; or (2) the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

BREAK-INS, BURGLARIES OR OTHER CRIMES (Applies to Pendleton Heights High School)

Collections, totaling \$528, representing receipts from an athletic event at Pendleton Heights High School on May 18, 2005, were not deposited to the Extra-Curricular bank account. Officials have stated that these collections are missing; however, a police report was not presented for audit.

Break-ins, burglaries or other crimes committed against the governmental unit should be documented by the filing of an official police report. Insurance companies should be contacted to request payment for any allowable coverage. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE SOUTH MADISON COMMUNITY
SCHOOL CORPORATION, MADISON COUNTY, INDIANA

Compliance

We have audited the compliance of the South Madison Community School Corporation (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirement(s) of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

February 19, 2007

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 26,074	\$ 41,704
National School Lunch Program	10.555		319,625	366,812
Total for federal grantor agency			345,699	408,516
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Safe and Drug Free Schools and Communities - State Grants	84.186	05-084 03-035	4,792 2,210	9,636 -
Total for program			7,002	9,636
State Grants for Innovative Programs	84.298	02-065 03-014 04-078	3,002 5,726 1,780	- 3,438 7,727
Total for program			10,508	11,165
Education Technology State Grants	84.318	2002-2003	3,272	-
Improving Teacher Quality State Grants	84.367	03-009 04-127 05-226	27,456 1,535 -	- 71,993 30,086
Total for program			28,991	102,079
Total for federal grantor agency			49,773	122,880
Total federal awards expended			\$ 395,472	\$ 531,396

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the South Madison Community School Corporation (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of School Corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2005 and 2006. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2005	2006
School Breakfast Program	10.553	\$ 4,130	\$ 5,378
National School Lunch Program	10.555	51,930	49,645

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? no

Reportable conditions identified that are not considered to be material weaknesses? none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified? no

Reportable conditions identified that are not considered to be material weaknesses? none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

Name of Federal Program or Cluster

Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

SOUTH MADISON COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 19, 2007, with Thomas E. Warmke, Superintendent of Schools ; Penny G. Myers, Treasurer; R. Stephen Caster, Chief Finance Officer; Carolyn Faith, Pendleton High School ECA Treasurer; and Glen A. Nelson, Pendleton High School Principal. The officials concurred with our audit findings.